Introduction to auditing:

No.	**Accounting**	**Auditing**
1.	**Meaning:** Accounting is writing books of accounts and preparing final accounts.	Auditing is examination of accounts to report whether they are true and fair.
2.	**Objective:** Objective is to prepare balance sheet to show financial position as at the year end and profit/loss A/c to show profit/loss for the year only.	Object is to examine and report if balance sheet shows true and fair financial position and if profit and loss A/c shows true and fair amount of profit/loss.
3.	**Scope:** Accounting is limited to books of accounts only.	Auditing is not limited to only books of accounts.
4.	**Done by:** Accounting is done by employees who need not have any special qualification.	Audit is done by an independent expert who must be a practicing chartered accountant.
5.	**Responsibility:** Accounting is employed by and is responsible to management.	Auditor is appointed by owners/shareholders and reports to them.
6.	**Beginning and end:** Accounting begins with vouchers and books of orginal entry and ends with preparation of final accounts.	Auditing begins where accounting ends i:e. with final accounts. Audit is complete when auditing submits his audit report.
7	**Nature of work:** Accountant records, posts and summarises current transactions. Accounts are checked by auditor.	Auditor analyses past transactions. Auditing is thus analytical. Once audited, accounts are not re-audited.

No.	Auditing	Investigation
1.	Meaning: Auditing is examination of accounts to report if they are true and fair.	Investigation is examination of accounts for specific purpose.
2.	Nature of assignment: Audit is an annual recurring assignment.	Investigation is a specific non-recurring assignment.
3	Types: Audit may be statutory or voluntary. It may be continuous, interim or final.	Investigation may be statutory under companies Act, income-tax Act or voluntary of shares, goodwill, fixing purchase consideration, detection of fraud etc.
4.	Appointed by: Auditor is appointed by owners or shareholders.	Investigation may be appointed by outsider e.g. Income-Tax Dept, Registrar Of Company, Investors, Lenders, Purchaser Of Business/Shares
5.	Scope:	Investigation may be limited to a

	Audit cover the entire accounts.	particular item in accounts depending upon its purpose.
6.	Re-audit: Audit does not involve re-audit.	Investigation may involve re-audit.
7.	Compulsory: Audit is compulsory for companies.	Investigation is not compulsory.
8.	Qualifications: Auditor of a company must be a practicing chartered accountant.	No qualification is prescribed by law for an investigator.

<u>Objective of financial audit:</u>

OBJECTIVE OF FINANCIAL AUDIT		
BASIC OBJECT	**INCIDENTAL OBJECT**	**NO OBLECT**
TURE & FAIR VIEW	**DETECING ERRORS & FRAUDS**	**OPINION ON**
PROFIT/LOSS **ASSETS/LIABILITIES**		**PROSPECTS** **EFFICIENCY** **EFFECTIVENESS**

ERROR MEANING:

Error means an unintentional mistake in financial information.

A “fraud”, on the other hand, is a deliberate and mala fide mistake.

ERRORS	
A. ERRORS OF PRINCIPLE	B. CLERICAL ERRORS 1. ERRORS OF OMISSION 2. ERRORS OF COMMISSION • Mathematical errors • Casting errors • Posting errors 3. COMPENSATING ERRORS 4. ERRORS OF DUPLICATION

Casting errors:

Casting errors, i.e. errors in totaling, forward, extension etc. may occur in day books.

Posting errors:

Posting errors occur while posting amounts from registers into the ledgers.

COMPENSATION ERRORS:

Compensating errors occur when the effect of one error is compensated by another error.

ERRORS OF DUPLICATION:

Errors of duplication occur when a transaction is recorded twice in the book of original entry.

ERRORS OF OMISSION:

An error OF omission occurs when a transation is omitted from books either wholly or party.

ERRORS OF COMMISSION:

1. Mathematical errors, 2. Casting errors or 3. Posting errors.

FRAUDS:

The standard on auditing (SA) **240**, "the auditor's responsibilities relating to fraud in an audit of financial statement" defines the 'fraud' as "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

AUDITOR'S DUTY REGARDING FRAUD:

Auditors duty regarding fraud(including window dressing and secret reserve)	Disclose in audit report
	Report to central government
	Check articles of association
	Verify income
	Verify assets and liabilities
	Verify provisions
	Verify closing stock
	Disclose change in method of A/c
	Prevent omission of assets and liabilities
	Disclose bad debts

FRAUDS:

FRAUDS	
1. MISREPORTING	2. misappropriation
a. not recording transactions b. recording dummy transaction c. misapplications of accounting policies d.1. window dressing 2. secret reserves	A. misappropriation of cash a. Cash received 1. Not recording cash received 2. Teeming and lading b. Cash payments (recording dummy/excess payment) c. Cash balance(theft)

	B. misappropriation of goods a. Goods received (not recording goods received) b. Goods dispatched (recording dummy/excess dispatches) c. Stock in hand (theft)

ERROR AND FRAUD:

ERROR	FRAUD
1. Error means an unintentional, bonafide mistake in financial information.	“fraud” is a deliberate and mala fide mistake
2. an error may be an error of principle or a clerical error.	Fraud may be manipulation of recors; misappropriation of goods or cash.
3. error may be detected by going back through the step involved in preparing trial balance.	Detection of frauds involves investigation.
4. auditor should ensure that financial statement are error-free.	Auditor has to report fraud in audit report and to central Govt. under companies Act, 2013.

TRUE AND FAIR VIEW

1. financial reporting framework	→	Companies act
		Accounting standards
		Guidance notes
2. no window-dressing/secret reserves		
3. disclose all material facts		
4. comply with governing laws		

WINDOW DRESSING	
Meaning	show better view than actual
Way	1. Mislead investors & lenders 2. Hide losses 3. Higher commission
How	1. Overstating assets 2. Understating liabilities
objections	1. No true & fair view 2. Shareholders suffer 3. Hides inefficiency of management 4. Fraud by management 5. Against companies Act

SECRET RESERVES	
Meaning	Show worse view than actual
Why	1. Mislead competitors 2. Hide abnormal profits 3. Fraud 4. Legally allowed to banks
How	1. Understating assets 2. Overstating liabilities
objections	1. No ture and fair view 2. Shareholders duffer 3. Undue benefit to management 4. Fraud by management 5. No check on assets 6. No insurance claim 7. Against companies Act

CONTINUOUS AUDIT:

CONTINUOUS AUDIT		
(A)	**(B)**	**(C)**
Advantages	**Disadvantages**	**Precautions**
Quick preparation of FA	**Expensive**	**Only large co. should adopt**
Early dividends	**Audit in installments**	**planning and working papers**
Latest FA for banks etc.	**Errors and frauds in books already checked**	**Rectification only By JV, secret ticks**
Check on employees	**Disrupts accounts work**	**Co-ordination with client**
Prevent errors and frauds	**Undue reliance on auditor**	**Clarify scope of audit**
Familiarity with business		
Thorough audit		
Utilization of audit staff		

MEANING:

Spicer and Pegler define it as "an audit which is not commenced until after the end of the financial year and then carried on until completed. Final or Periodic audit means an audit taken up after the end of the accounting year. The audit work begins only after the accounting year I over. Generally majority of audit are in the nature of final, periodical or annual audits.

INTERIM AUDIT:

MEANING: Interim audit is an audit conducted in between the annual audits. For example, an audit of accounts prepared for the period of six months from 1st April to 30th September, would be interim audit.

INTERIM AUDIT IS CONDUCTED IN FOLLOWING CASES:

1. Quarterly results:
2. Interim dividend
3. Sale of business
4. Changes in firm

ADVANCES:

1. Quarterly results
2. Interim dividends to shareholders
3. Quick preparation of final accounts
4. Up-to-date accounts for banks/inventors
5. Check on employees
6. Prevents errors and frauds
7. Thorough final audit
8. Utilization of audit staff

DISADVANTAGES AND PRECAUTIONS

1. Expensive
2. Audit in installments
3. Errors and frauds in books already checked
4. Disrupts accounts work

BALANCE SHEET AUDIT

MEANING: Balance sheet audit involves an in-depth examination of the various items in the balance sheet and the profit and loss account. The original entries and vouchers are examined only to the extent necessary.

BALANCE SHEET AUDIT VS ANNUAL AUDIT

No.	Balance sheet audit	Annual audit
1	Balance sheet audit is more suitable for large organization where internal control systems are centralized and large numbers of small tractions are recorded at different places/branches.	Annual audit are suitable in small organization and where internal control system is reviewed by Annual auditor, whether statutory or voluntary.
2	Balance sheet audit involves verification of balance sheet item and their comparison with previous year figures.	Annual audit involves checking whether financial statements conform with the books of accounts maintained, and give a true and fair view.
3	Balance sheet audit does not involve review of internal control systems.	Annual audit involves review of the internal control systems and internal checks and adherence to management policies.
4	The concept of Balance sheet audit arose in the	Generally, annual audit is treated as Balance

	USA is there popular in global companies.	sheet audit in India. However, Because of computerization and EDP accounting it is becoming popular in India.

No.	Balance sheet audit	Continuous audit
1	Balance sheet audit is taken at the end of the financial period after closing the books for the year.	Continuous audit is examination of recurs continuously throughout the year, at intervals.
2	Mandatory and prescribed by different statutes.	Not mandatory. It is conducted at the discretion of the management.
3	Statutory audit aims to check that the financial statement of an entry and give a true and fair view.	Continuous audit is conducted with the objective of review of internal controls. Checks financial or non-financial operations of the organization.
4	Its scope is prescribed by the government law.	Its scope is decided by the management and auditor through the letter of engagement.
5	The auditor is an independent person and is appointed by the shareholders. On whose behalf the audit is conducted.	Continuous audit is conducted by any independent agency or by the employees of the enterprise. It is conducted on behalf of the management.
6	A qualified CA can be a Statutory auditor.	No qualification is prescribed.
7	The auditor’s term ends at every AGM.	The auditor’s term may continue at the will of the management.
8	Report to shareholder in a formal prescribed under law.	Report to the management in no prescribed format.